

Riverside Forest Products Limited

1999 Annual Review



The Human Factor

Highlights

For the year ended September 30, 1999
(in thousands of dollars except per share amounts)

SALES AND INCOME

Sales	\$ 546,826
Cash flow from operations before changes in non-cash operating working capital	\$ 69,614
Cash flow from operations	\$ 95,828
Earnings before interest, taxes, depreciation and amortization (EBITDA)	\$ 105,771
Earnings before income taxes	\$ 66,624
Net earnings	\$ 38,558

COMMON SHARE DATA

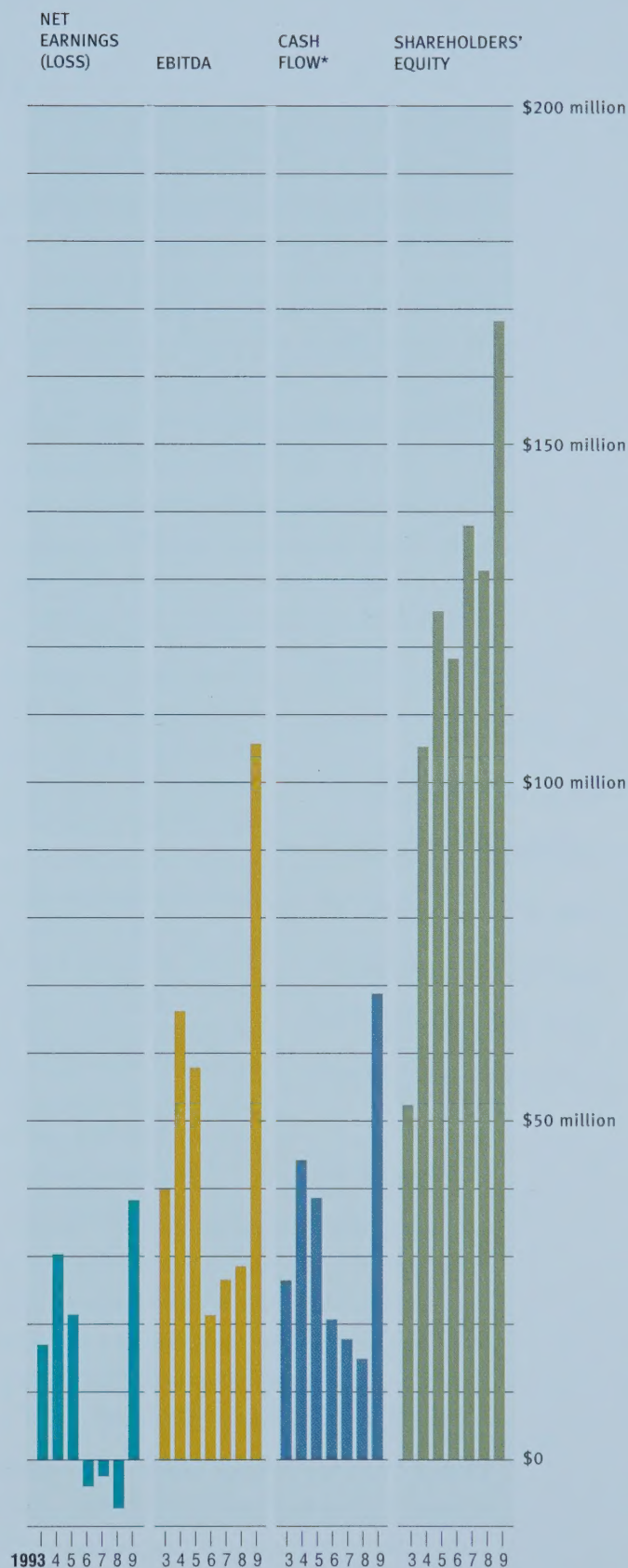
Common shares outstanding	9,199,493
Cash flow from operations per share	\$ 10.42
Net earnings per share	\$ 4.19
Shareholders' equity per share	\$ 18.36

FINANCIAL POSITION

Working capital	\$ 112,493
Total assets	\$ 418,688
Long-term debt	\$ 120,253
Shareholders' equity	\$ 168,860
Invested capital	\$ 289,113
Capital expenditures	\$ 10,248

OTHER DATA

EBITDA/Sales	19.3%
EBITDA/Interest	7.2X
Percentage of long-term debt to invested capital	41.6%
Return on average shareholders' equity	25.7%



* Before changes in non-cash operating working capital

Report to Shareholders

Nineteen ninety-nine was a year of record-breaking results and outstanding achievements for Riverside.

For the year ended September 30, 1999, we reported profits of \$38.6 million, or \$4.19 per share on sales of \$546.8 million. These were the best results in our history, and a dramatic improvement over 1998's loss of \$7.8 million or \$0.85 per share on sales of \$450.9 million. Earnings before interest, taxes, depreciation and amortization (EBITDA) reached \$105.8 million, surpassing the \$100 million mark for the first time.

Every one of our operating divisions was profitable in 1999 and all of our cost centres exceeded their budget projections. Our strong earnings and cash flow made it possible to repay \$20 million U.S. in long-term debt – one and a half years in advance of maturity, and we reinstated dividends to our shareholders during the course of the year

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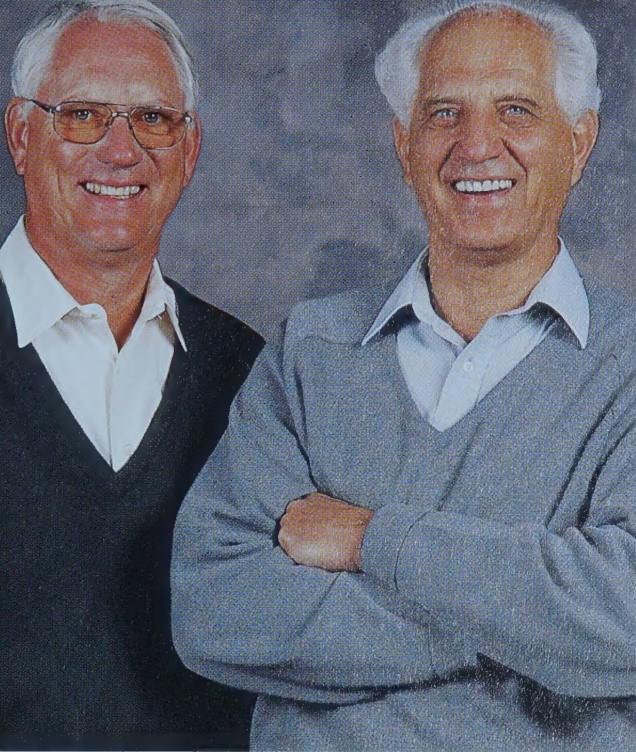
Clearly, market conditions deserve much of the credit for these results. With housing starts of 1.6 million, an exceptionally strong U.S. housing market helped drive up demand and prices for our core plywood and lumber products. Plywood prices increased by an average of 19% year-over-year, with lumber prices increasing by 5%. Riverside also benefited from market-related stumpage decreases that helped in the overall log cost reduction of nearly \$23 million.

Yet neither market conditions nor changes in stumpage fees explain why our results improved so quickly, or so dramatically. In fact, given the continued weakness in Japan and ongoing trade restrictions on softwood lumber exports to the U.S., our gains should have been much more moderate. That's where the human factor came in.

The Human Factor

Year after year, we mention the remarkable contribution of Riverside's people. It's not idle flattery. Riverside operates in a commodity business where many things are beyond our control. Our strategy has always been to focus on the parts of our business we can control – things like efficiency, cost control and product value – and do a better job of them every year. It's a strategy that relies heavily on the innovation and hard work of our people, and once again they have delivered an impressive performance.

During 1999, our manufacturing and marketing people worked closely to diversify our product mix and expand into new markets. They developed new plywood products for customers in the United States, and a broader range of custom and high-value lumber products for customers in other markets.



Although we already operate some of the fastest and most efficient manufacturing facilities in the industry, our people managed to get more out of them last year. In the Cariboo, crews at both our Williams Lake and Soda Creek mills continued to set new performance records literally every week. At Soda Creek, this was accomplished while going through the difficult task of closing down the original sawmill, re-training our people, and moving the new mill to record levels of production.

In the Okanagan, both our plywood plants set new daily production records, with Armstrong breaking the one million square foot per day milestone.

We also lowered our costs again in 1999. In our woodlands division, for example, we brought down our delivered log costs while meeting ambitious targets for standing timber inventory, road development and silviculture. At the same time, we improved log quality and ensured that the right log was delivered to the right line.

It is because of achievements like these that we were able to respond so well and so quickly to last year's favourable market conditions. And it is because of the people who turn in these achievements that Riverside has become a dominant player in a very strong industry. It gives us great pleasure to profile not just their accomplishments, but something of their unique personalities in this year's annual review.

We thank our employees for their contributions – last year, and every year. And we thank our shareholders, directors, customers and suppliers for continuing to help us support and progress with this remarkable team.

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Gordon Steele
President and CEO

Gerald Raboch
Chief Operating Officer

Operations Review

REVIEW OF PLYWOOD OPERATIONS

Two and a half years ago, the collapse of the Japanese house building market spelled major trouble for Canadian plywood exporters. With exports to Japan falling by half, virtually everyone in the industry foresaw a sustained period of weaker results.

Riverside was particularly vulnerable as Japan represented a significant percentage of our plywood sales at the time.

However, rather than waiting for Japan to recover, a group of our manufacturing and marketing people opted to view the situation as an opportunity. They began exploring the large U.S. market, despite knowing that entry into this market would not be easy. Few American customers had ever heard of Riverside, and they were not familiar with the Canadian spruce plywood we produce.

But our team persisted, demonstrating to customer after customer that Riverside's plywood could meet U.S. performance standards, exceed quality expectations, and adapt perfectly to their needs.

Last year, the U.S. plywood market took off, driven by a strong economy and a red-hot house building market. Riverside's plywood sales went with it.

Thanks to the quality of our products and the tenacity of our people, we had achieved a sizeable market base in the U.S., particularly with industrial customers who use our plywood in the manufacture of other products. As a result we went on to sell more plywood than ever before, at the best prices in our history. Plywood sales rocketed to \$154.6 million, reflecting a 22% increase in sales volumes and a 19% increase in average prices.



THEY HAVE DEVELOPED NEW PRODUCTS. REDEFINED QUALITY. HELPED US FORGE
NEW MARKETS: WHEN IT COMES TO PLYWOOD, RIVERSIDE PEOPLE HAVE TRULY
BLAZED NEW TRAILS – AND THEIR TRAILS ARE LEADING US TO SUCCESS.

Moving up the Value Chain

The results of the past year add an appropriate new chapter to Riverside's plywood history.

We have always seen potential in plywood. When others declared plywood a sunset industry because of the introduction of less expensive products like oriented strandboard (OSB), we insisted that plywood had inherent strengths that customers would continue to seek out.

Plywood is the strongest, lightest and most moisture stable of wood panels, making it ideally suited for flooring and roofing applications, and for use in the manufacture of products like furniture, buses and recreational vehicles. With innovative ideas from our people and upgrades to our plants, we began developing products even better suited to these applications.



T B R A I L Z E R S

Today, all Riverside plywood features 100% composed core – meaning there are no overlaps or gaps in the veneered layers. This gives our panels the consistent thickness needed for roofing and flooring applications. It also makes them well-suited to industrial applications. Customers can re-cut panels to any size knowing their edge profile will always remain the same.

Riverside has also pioneered new methods for producing custom thicknesses and finishes precisely and cost efficiently. And we have moved our plywood further up the value chain by increasing production of precision-sanded select grades, thick panels and value-added products like Riverside ULAY floor underlayment and COFI-Roof. Our volumes of premium and specialty grades now represent 66% of our total plywood production.

Bringing our Products to the World

Our achievements have helped us expand into new and more profitable markets.

In Canada, our sales to the higher-value industrial market keep growing. In Japan, Riverside has become the largest supplier of Canadian softwood plywood. While Japan has not yet achieved a full economic recovery, markets are improving and our sales to Japan are increasing.

Now, the U.S. has become an important market as well. We have demonstrated to customers in the United States that we can meet their needs with high-quality products. Our U.S. business grew 230% last year, and is continuing to grow.

Plywood Manufacturing Operations

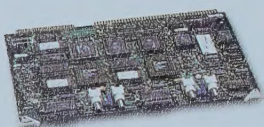
Riverside's record-setting sales were supported by a remarkable effort from our veneer and plywood manufacturing teams.

Crews at the Armstrong and Kelowna plants pushed production to a new record of 402 million msf in 1999, up 25% from 1998 levels. While they were at it, they lowered costs and improved recovery levels – all in a year when Riverside was developing and manufacturing dozens of new grades and sizes for customers in the United States.

At Armstrong, innovative thinking and the combined effort of plant employees led to production of over one million msf of plywood per day. The breakthrough came with the realization that further increases to productivity would depend on improving the quality of the core. By first making changes to the plant's three veneer composers, and then speeding up the Kitagawa assembly line, crews achieved this ambitious and long-held production goal.

Kelowna's plywood team was also setting records. With minor adjustments to the plant's green-end, drying and composing phases of production, Kelowna achieved a new production record of 595 msf per day. The year's achievements included installation of a highly efficient 12-bin dry sheet stacker, designed and built by Riverside employees. Building the stacker rather than buying one saved Riverside over \$400,000, and the new stacker has helped improve productivity and lower conversion costs.

Results at both Kelowna and Armstrong were enhanced with the installation of new veneer scanners. The new technology uses a computerized camera system to quickly and accurately grade each piece of veneer coming out of the dryer. Not only have the scanners improved grade recovery, but they have also sped up production by letting dryer operators focus on dryer performance rather than veneer grading. Riverside plans to install scanners on three more dryers in fiscal 2000.



WE CALL THEM OUR MAINTENANCE TEAM. IN TRUTH, THEY'RE MODERN DAY WIZARDS – THE KIND OF PEOPLE WHO THINK NOTHING OF ADAPTING TECHNOLOGY OR INVENTING A NEW PIECE OF EQUIPMENT TO ACHIEVE A PRODUCTION GOAL. AND WHEN THEY GET THERE? THEY JUST SET THE BAR HIGHER AND START ALL OVER AGAIN.

Veneer

The past year was also an exceptional one for veneer. Riverside produces veneer at both of our plywood plants, and at a separate plant in Lumby, B.C. Nearly 43% of Lumby's veneer is used to make our own plywood products, with the remainder sold to outside buyers.

During 1999, veneer production at Lumby increased by 16% and external veneer sales by 15% in response to strong demand and record prices. Our results were supported by a record year at the Lumby plant, where crews continued to set new productivity records. One of the highlights was reducing lathe downtime to just 0.01% last year; a direct result of the efforts of the plant's maintenance team.

REVIEW OF LUMBER OPERATIONS

The positive impact of Riverside's people can be seen throughout our lumber operations. It's evident in the simple fact that lumber remains a successful and growing business for Riverside – despite the challenges of trade barriers, greater market volatility and increased competition.

At our Okanagan mills, Riverside people have helped push our stud lumber products well beyond the status of a complementary by-product of plywood. They have increased product value, enhanced efficiency and developed specialized grades – all of which have made stud lumber a more viable and profitable product for us.

In the Cariboo region, our teams have helped us make the successful leap into dimension lumber and finger-joint products, and gain access to the growing markets for structural beam components and engineered wood products. In the process, they have taken older mills and turned them into modern facilities, and gone on to push the technology to new performance levels.

Last year, these achievements helped Riverside take advantage of strong market conditions to deliver record results.





1999 in Review

Prices for our lumber products were higher in 1999, with stud lumber prices rising 4% and dimension lumber prices up 10%. The gains were driven by robust markets in North America, and slow but steady improvements in the Japanese housing market. But high demand did not translate directly into ready markets.

Canadian lumber exports to the United States, our largest market, are controlled by the Canada/U.S. Softwood Lumber Agreement. This agreement limits how much lumber each Canadian producer can export south of the border. Producers that exceed the limit trigger stiff financial penalties that quickly erode profitability.

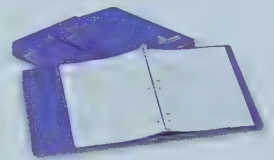
For Riverside, the challenge was to use our quota allotment strategically to respond to periods of high demand in the U.S. market, without exceeding our limits. By year-end, our lumber teams had managed the process so well, we had filled exactly 100% of our quota allotment, and we knew exactly which truckload carried the final shipment to meet our annual quota.

We were also successful in expanding lumber sales beyond the U.S. in 1999. We continued to build relationships with industrial and remanufacturing customers in Canada by developing customized lumber products precisely suited to their needs. We were also successful in regaining Japanese sales lost as a result of that country's economic downturn. Our sales to Japan increased 26% last year and are now back to 95% of 1997 levels. In addition, we increased production and sales of higher value products such as lam stock, finger-joint products and machine stress rated lumber used to make structural I-beams.

All of these efforts helped increase our lumber sales volumes by 8% during 1999. Combined with higher prices, this resulted in total lumber sales of \$292.6 million—a new record for Riverside.

NEW OWNERS. CHANGING TECHNOLOGY. A WHOLE NEW SET OF EXPECTATIONS.

FOR OUR PEOPLE IN THE CARIBOO, THE PAST FEW YEARS HAVE BROUGHT PLENTY OF CHALLENGES. THEY'VE MET EACH ONE HEAD-ON: UPGRADING THEIR SKILLS, ADAPTING TO NEW EQUIPMENT, AND PUSHING OUR MILLS BEYOND EXPECTATIONS.



Lumber Manufacturing Highlights

Cariboo Operations:

At the Williams Lake dimension lumber sawmill, 1999 was a year of setting new records following the \$45 million modernization completed in late 1998. Staff and crews not only increased annual production by 22% and led the way in producing non-quota products, they also set a new safety record while they were at it. The Williams Lake mill has now gone more than a year without a lost-time accident.

At Soda Creek, new production records were achieved in a year that saw the old stud mill close, and production shift entirely to the mill's newer small log mill. Crews in the small log mill made the adjustment with remarkable success, bringing daily production up 38%, increasing production of higher value export products by 35%, improving log recovery by 11% while reducing conversion costs by 8%.

These results highlight the significant achievements of our people in the Cariboo. Crews at both mills have had to adapt to significant change in recent years – learning new jobs and adapting to new technology. They have accepted the challenge. Many have upgraded their own skills and virtually all are helping to raise the bar on performance with active participation in continuous improvement programs.

At the Williams Lake mill, for example, Riverside first introduced continuous improvement programs two and a half years ago. Last year, crews made the transition to working without an outside facilitator. For many companies, this is the stage at which results from these types of programs begin to lag. For Williams Lake, it was the start of the best year in the mill's history. Crews went on to exceed the mill's design expectations, and performance is still improving.

Okanagan Lumber Operations

Riverside's three stud lumber mills in the Okanagan region also turned in impressive results last year. With a greater supply of logs and better prices and demand, we increased stud lumber production 11% from 1998 levels.

Highlights of the year included continued improvements in productivity and recovery at all three mills – achievements that reflect the efforts and ingenuity of our crews.

At Armstrong, higher productivity and improved recovery were achieved with minor modifications to belt speeds, installation of a new board edger optimizer, and changes to the mills sorting and grading systems.

The Kelowna mill achieved record production, while increasing extraction of higher grade export lumber. Crews also came up with more efficient approaches to drying lumber to help Riverside take advantage of market peaks during the year. We plan to further enhance Kelowna's drying capabilities by modernizing the dry kilns in fiscal 2000.

A major highlight for Kelowna was achieving two years without a lost time accident. This achievement brought the mill recognition for outstanding safety performance from both the Workers Compensation Board and the Interior Lumber Manufacturers Association.

For the Lumby stud mill, 1999 was a year of continued success in transforming low-cost wood into high-value products. Crews at the Lumby mill continued to increase Riverside's production of high-value, non-quota lumber products last year by producing small, highly customized lumber orders.

Wood Chips

The main by-product of lumber manufacturing is wood chips, a product which is used by pulp and paper manufacturers to make pulp.

During 1999, a major challenge was to produce marketable chips from the large quantities of fire-burned wood in our log supply. Working closely with our customers, our Kelowna operations developed a tightly managed process that let us make use of this fibre while ensuring the chips produced were completely acceptable to our customers. Crews at our Williams Lake mill also improved chip quality in 1999 to earn a 5% price bonus from the mill's chip customer.

The year also brought significant progress in our efforts to chip tops and broken pieces of trees, material that used to be considered waste debris. Following several years of effort and experimentation, crews in Kelowna succeeded in converting this material into high-quality, marketable chips right at the log yard site. In our Lumby and Armstrong divisions, this material is now collected and transported to the whole log chipper at Armstrong.

These achievements, combined with Riverside's increased lumber and plywood production, and the resumption of whole log chipping at Soda Creek, helped boost our 1999 wood chip output to 635,742 bone dry units (BDUs), an increase of 17% over 1998. Together with slightly higher prices, the result was a \$9.7 million increase in sales, bringing chip sales to \$54.8 million. As markets for chips continue to strengthen, the prospect is for continued gains in 2000.

Power: The Other By-product

For our Kelowna operation, one of the by-products of lumber and plywood manufacturing is power. Each year, Kelowna's turbo generator converts nearly 45% of the facility's wood waste or "hog fuel" into electricity, helping to supply part of our power requirements.

During 1999, Riverside proceeded with plans to replace the older five-megawatt turbo generator with a new \$3 million 10-megawatt unit. Scheduled for start up in December 1999, the new cogeneration facility will consume all of Kelowna's hog fuel and eliminate the need to sell or landfill any of this material. The new facility will also produce enough power to supply fully 100% of our Kelowna operations' needs, while providing excess power to sell back to the grid.

REVIEW OF REMANUFACTURING OPERATIONS

Ashcroft Treating Plant

The Ashcroft Treating Plant treats railway ties, bridge timbers, and railway crossing planks for customers in Canada and the United States. This is a highly specialized business, requiring close working relationships with customers, and the ability to engineer products such as bridge timbers to exact specifications.

For the team at Ashcroft, ensuring that railways get the products they need – when they need them – is what the job is really all about, and they have earned a reputation for going to unusual lengths to deliver. Their response to challenges in the hardwood tie market provides a good example.

Hardwood ties are commonly used on the main railroad lines that carry long trains and heavy loads. While most railways have tried substitutes, virtually all have come back to treated hardwood ties because of their strength and durability. About three years ago, that popularity, together with expansion on some of the major U.S. lines, put excessive pressure on the supplies of untreated hardwood ties that Ashcroft works with.

Faced with a long list of customer orders and a shortage of ties, Ashcroft, in conjunction with CP Rail, searched the world for new and less expensive sources of hardwood ties. We finally found the raw material we needed in Asia, and the operation went on to meet customer needs.

Last year, demand for treated hardwood ties remained strong in Canada, and Ashcroft was well-positioned to respond. The operation also took advantage of an easing of pressure on U.S. tie supplies to stock up in anticipation of future demand.

Our team's strategic response to the hardwood tie market helped make 1999 the best year in Ashcroft's 15-year history. Total production increased and profits doubled. Results also benefited from a strong year for our bridge timber and railway crossing plank products. During 1999, Ashcroft continued to attract new business for these products with railway and contractor customers in the United States and Alberta, while building on our existing contracts with customers in B.C. and elsewhere in Western Canada.



Winfield Bin & Pallet Plant

The Winfield plant, located near Kelowna, B.C. remanufactures plywood from our Kelowna and Armstrong plants into products for North American, European and Japanese customers.

Two of the plant's main product lines were hit hard by weak market conditions in 1999. The fruit bin market fell dramatically after a poor growing season, and the sale of re-sized products to Japan continued to be hampered by weakness in the Japanese economy. Winfield scaled back operations in response, and succeeded in remaining profitable in 1999 despite the challenges.

PROBLEM? THAT'S JUST ANOTHER WORD FOR OPPORTUNITY AROUND RIVERSIDE.

JUST CONSIDER OUR ASHCROFT TREATING PLANT WHERE OUR PEOPLE TOOK A MAJOR RAILWAY

TIE SUPPLY PROBLEM AND TURNED IT INTO LAST YEAR'S RECORD RESULTS.



REVIEW OF WOODLANDS OPERATIONS

Imagine what you will be doing ten years from now. Now extend the time frame to twenty years – or even thirty. If it seems like a big leap, stop and consider that this is just part of the daily job for Riverside's forest planners.

At Riverside, we believe that the best and most viable approach to managing our fibre supply is to be very clear about what we will be harvesting, and where we will harvest it, for a long time to come. In an age of high log costs, tough environmental requirements, and changing political realities, long-range planning really is the key to success. But it's no small undertaking.

Riverside manages over 2.1 million hectares of public forest land. Our forest tenures cover all kinds of terrain and include stands of different species, ages and quality. In addition, many of the forest areas we operate in have uses that go beyond timber, requiring us to account for a variety of different users.

Four years ago, our forest planners accepted the challenge of developing long-term plans that would account for these various requirements, and help us map out our future.

The job has since involved compiling detailed information about each and every hectare of our operations. Our foresters have had to work closely with government ministries, neighbouring communities and our own manufacturing teams to determine current and future needs. And they have had to formulate this information into detailed harvest plans that look far into the future. The task has put significant demands on our people, but for the team involved, last year's results left few doubts about the value of their work.

Meeting the Demand

In 1999, the pressure was on to deliver large quantities of logs to our mills so that Riverside could respond to market opportunities. Our woodlands teams met the demand by harvesting 2.5 million cubic metres and increasing our volumes of purchased logs 65% to 1.4 million cubic metres. At the same time, they reduced our log costs. Riverside's delivered log costs fell to \$65 per cubic metre – \$7 per cubic metre less than in 1998. This represented savings of nearly \$23 million for the 1999 fiscal year.

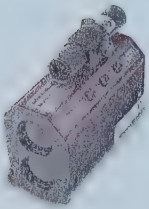
It is important to note that much of this reduction was the result of market-related decreases in government stumpage fees. Stumpage fell by almost \$5 per cubic metre in 1999 and is expected to rise again next year. However, the balance of the savings resulted from improvements in our operations – and these savings were primarily the result of better planning.

Operational Highlights

Thanks to long-range planning, Riverside had the harvesting permits on hand and roads in place to step-up harvesting in response to market demand. Careful planning also let us deploy our crews and equipment more efficiently and effectively, which helped to lower costs.

These achievements were not made any easier by the year's operating conditions. Our crews faced the challenge of cleaning up the forest after a major fire season in the Okanagan and destructive mountain pine beetle infestations in both the Okanagan and the Cariboo regions. Fully 46% of our harvest was made up of salvage timber last year.

Nineteen ninety-nine was also a year of record snowfall which hampered logging and road building activities during the spring period. However, long-term planning paid off once again. Our larger supply of approved cutting permits gave us the flexibility to work around the weather and ensure we minimized environmental risks in our operations.



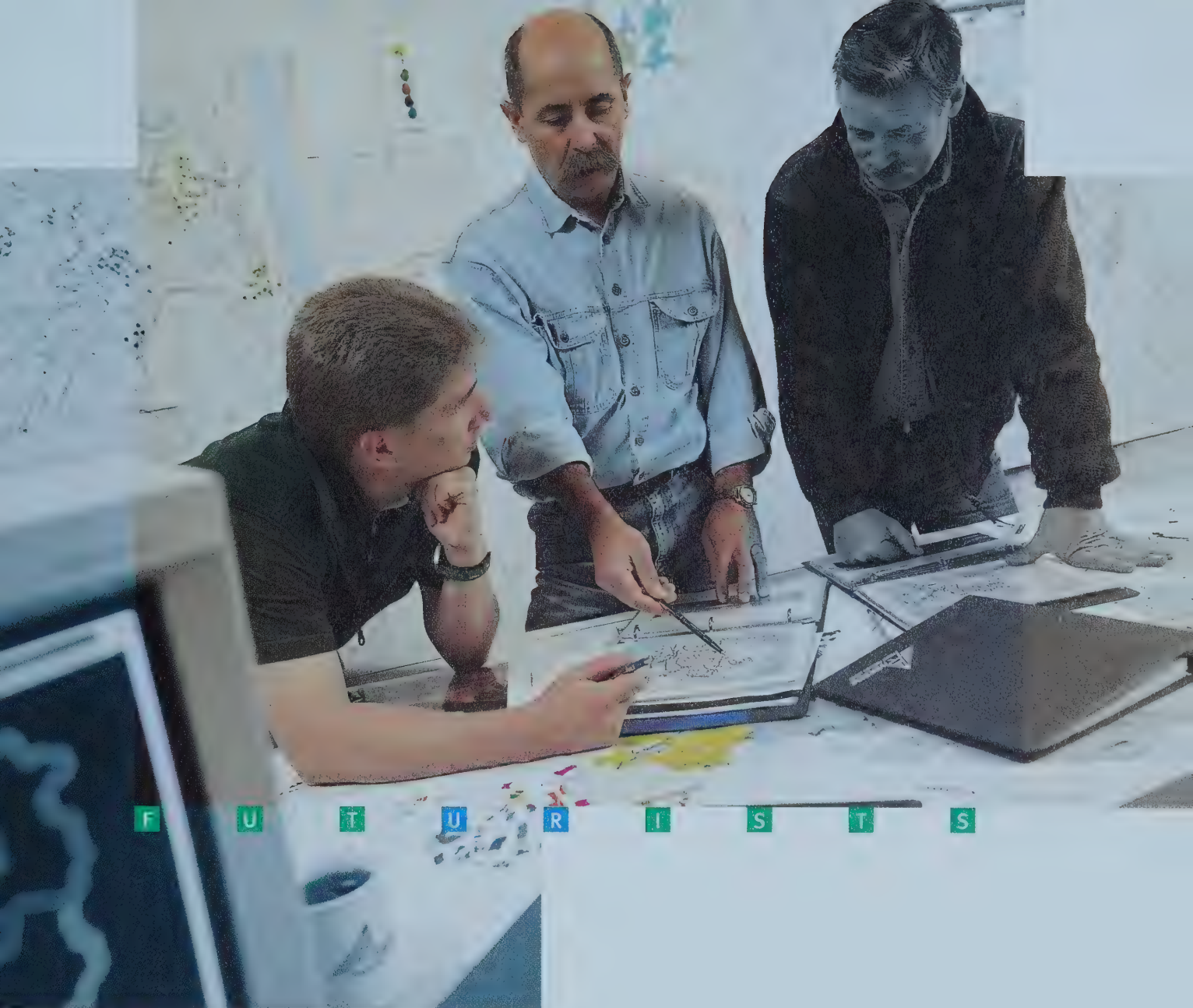
FIRST THEY LOOK TO THE FUTURE. THEN THEY HELP US PLAN FOR IT. AT RIVERSIDE, THE LONG-RANGE THINKING AND PLANNING OF OUR WOODLANDS TEAM IS HELPING US LOWER COSTS, IMPROVE ENVIRONMENTAL PERFORMANCE, AND MAINTAIN THE RIGHT SUPPLY OF FIBRE TO OUR MILLS – NOW AND FOR THE FUTURE.

Planning for the Future

The benefits of our planning efforts will become even more apparent in the coming years. That's because in areas like silviculture and road building, there is often a lag of several years between actions and benefits. In the meantime, our approach to planning is becoming steadily more detailed, analytical and better able to deliver results.

One area receiving considerable attention is watershed planning. The Okanagan contains more community watersheds than any other forest region in the province, and Riverside is fast becoming a leader in effective watershed planning.

During 1999, we continued work on a number of watershed management plans including the Chase Creek and Salmon River watersheds. We also initiated the Mission Creek Plan – a project that will further enhance our expertise in watershed management while creating a comprehensive, long-term management plan for the Mission Creek watershed near Kelowna. The \$110,000



project includes studying the impact of harvesting on snow levels, water flows and water quality, and comparing and evaluating a variety of management options for the watershed. The information provided by the study will help us do a better job of planning watershed activities in all of our operating areas, while providing valuable information we can share with other stakeholders.

These other stakeholders represent one additional reason for focusing so much attention on long-range plans. Better planning and improved communication have already helped us develop more cooperative and productive working relationships with government ministries and communities. We are now better able to answer questions, address concerns and keep stakeholders informed of our plans. While the results of these efforts are difficult to measure in dollar terms, they are vitally important to Riverside's success – now – and in the future.

Report on the Environment

Each year, Riverside and our employees work to find new and better ways to reduce our impact on the environment. In the following pages, we outline the progress made by our forestry and manufacturing operations in the past year.

FOREST MANAGEMENT

(Data based on 12-month periods ended December 31)

General Woodlands Information

	1996	1997	1998
Total area of operations (in million hectares)	1.8	2.1	2.1
Total area harvested (in hectares)	8,095	11,482	11,643
Total harvest (in million cubic metres)	2.1	2.1	2.3
Area naturally regenerated (in hectares)	5,037	4,616	4,109
Area planted (in hectares)	5,260	8,717	8,531
Areas not sufficiently restocked (in hectares)	1,644	748	349

Forest Practices Code

Riverside operates on 2.1 million hectares of publicly owned, or “Crown” land. Every move we make is governed by strict forestry and environmental laws under the Forest Practices Code. This is considered one of the toughest sets of forestry regulations in the world. Compliance is monitored by the Ministry of Forests, the Ministry of Environment, BC’s Forest Practices Board, and by ourselves. Any concern that comes to our attention is added to Riverside’s action plan, and addressed promptly.

Compliance

During calendar 1999, the Forest Practices Board (FPB) conducted a major audit of Riverside’s harvesting and road building activities within the Lumby division’s Arrow Forest Licence. The audit did not find any significant non-compliance issues. Significant non-compliance issues are those that result (or could result) in harm to persons or the environment, even after taking remedial action.

Contraventions

During the period of October 1, 1998 through September 30, 1999, the Ministry of Forests carried out 2,372 inspections in our woodlands operations. Riverside was notified of determinations resulting in the following five Forest Practices Code contraventions.

Contravention	Instances	Penalties	Remedy Required
Operations not conducted in accordance with approved plan	2	\$0	1) none – site preparation was appropriate 2) none – area was within harvest block
Unauthorized harvesting block	2	\$300	1) none – area was within harvest block 2) none – 0.14 hectare block was incorporated into harvest area
Road construction without written approval	1	\$1,000	none – approvals followed

Also during the year, the Forest Appeals Commission provided written findings for our appeal of charges under the Forest Practices Code that arose from a small slide that occurred in May of 1997. Riverside’s appeal was allowed in part. One charge was dropped, but two original charges remained resulting in a \$4,900 penalty.

Internal Audits

Riverside conducts internal woodlands audits to evaluate our own environmental performance in the areas of planning, timber harvesting, road construction and maintenance. During 1999, we adopted ISO 14001 protocols for these audits. Results indicate no significant issues of non-compliance.

Operational Highlights

- Riverside significantly increased harvesting of insect-infected and diseased timber in 1999. In fact, 46% of our total harvesting in 1999 was undertaken to address these forest health issues.
- Riverside stepped up efforts to recover pulp logs from roadside debris in order to increase fibre utilization and decrease the need for waste burning. In the Kelowna division, these logs are transported to a central yard for chipping. In the Armstrong and Lumby divisions, pulping fibre is now collected in green boxes on the landing and transported to the Armstrong whole log chipper.
- We completed two additional watershed assessments in 1999, bringing the total number of assessments completed since 1996 to 20. In addition to completing the assessments, Riverside undertakes watershed restoration activities to mitigate environmental concerns wherever we find them.
- Riverside is conducting caribou research to determine if changes in our practices can benefit this species.
- In the Horsefly district, we continue to commercially thin stands in order to make better use of allowable cut while at the same time maintaining biodiversity requirements.

Harvest block size and distribution

hectares	1995	1996	1997	1998
0-10	281	284	364	284
11-20	90	98	101	108
21-30	51	86	78	92
31-40	32	40	62	63
41 +	43	61	97	95

Includes all types of harvesting systems
1997 and 1998 statistics reflect the addition of the
Soda Creek operations

Soil Conservation

Paying attention to soil conservation pays major environmental dividends. Fish streams run clear, forests regenerate more easily, and other erosion and compaction risks are reduced dramatically. Accordingly, soil conservation ranks high on our list of environmental objectives.

- Audits indicate we are staying well within allowable soil disturbance levels on our harvesting sites.
- Thanks to an improved inventory of approved cutting permits, we are building logging roads longer in advance of when they are needed. This reduces the risk of soil erosion by giving roads a chance to settle.
- Riverside has increased the use of central tire inflation systems on logging trucks. These systems let drivers lower tire pressure on logging roads to reduce the impact on soil.
- To further enhance our soil conservation efforts, Riverside deactivated 775 kilometers of logging roads during the year.

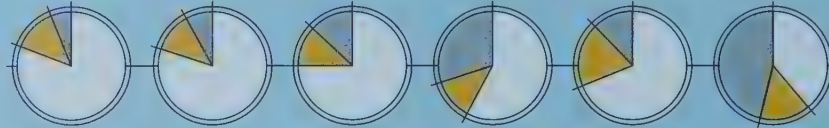
Reforestation

Riverside is responsible for regenerating the sites we harvest, and for ensuring that the new forests reach a state where they are fully established and growing well. Since 1987, we have harvested over 130,000 hectares of forest. As of December 31, 1998, only 349 hectares had not met the regeneration delay requirements. Thanks to good monitoring and diligent management by our silviculture teams, this is down from 748 hectares in 1997. Remedial measures to reduce this further are underway.

Silviculture Systems

	93	94	95	96	97*	98*
selective and alternative	13%	12%	12%	12%	19%	15%
salvage conventional	6%	8%	13%	30%	12%	46%
clearcut conventional	81%	80%	75%	58%	69%	39%

*1997 and 1998 statistics reflect the addition of the Soda Creek operations



Community Involvement

To account for a wide range of needs, Riverside involves communities and other forest stakeholders in our forest planning.

In addition to formal, ongoing public involvement in our development process, we remain actively involved in the Cariboo, Okanagan and Kootenay land use plans. These initiatives are helping to define the levels of sustainable forest management within our operating areas.

First Nations involvement is an essential part of our planning process. Riverside conducts archaeological overview surveys, and where necessary, field surveys are completed in advance of logging.

To aid planning, our divisional staff are involved in community planning groups including the Salmon River Watershed Round Table, the Salmon Arm Community Futures organization and the Merritt and the Arrow Innovative Forest Practices Agreements. These groups help direct funding to projects which will enhance the forest resource.

Several community groups and first nations are involved in FRBC partnerships with Riverside that involve conducting enhanced stand management activities. These groups include:

Adams Lake Indian band	Little Shuswap Indian Band
Shuswap Community Futures	Alexis Creek Indian Band
Okanagan Indian Band	Spallumcheen Indian Band
John Howard Society	Nisconlith Indian Band
Ts [^] ilqot [^] in National Government (TNG)	Likely Chamber of Commerce
Salmon River Roundtable	Vernon and District Handicap Society
Tatlayoko Woodlot Association	Kleena Kleen Resource Association

Harvesting Methods

	93	94	95	96	97	98
skidder based logging	97%	96%	94%	94%	96.1%	96.9%
cable logging	3%	4%	5%	5%	3.7%	2.7%
heli-logging	—	—	1%	1%	0.2%	0.4%



MANUFACTURING OPERATIONS

(Data based on 12-month periods ended September 30)

Monitoring Performance

Riverside's 12 manufacturing facilities are subject to regulation of air emissions, hazardous materials handling and disposal, and water quality, with permit levels assigned in some cases. We are responsible for measuring our performance in areas governed by permits and reporting the data to government. For example, Riverside conducts independent air quality samplings of our boiler emissions each month and reports the findings.

To ensure we remain proactive about our environmental performance, we also conduct internal environmental audits. These audits are undertaken every three years by a trained team of Riverside employees. Recommendations arising from the audits help us form action plans at each facility.

Air Quality

Riverside has made major strides in improving air emissions from our operations. In the past two and a half years, we have installed new electrostatic precipitators at both our Kelowna and Armstrong plants to virtually eliminate pollutants from the mills' emissions. Both mills are now operating well below their permit levels.

Riverside continues to operate one beehive burner at Lumby, B.C. on an extended permit that expires in December 2000. This burner disposes of wood waste from the Lumby operation, and assists other operations in the area to burn hog fuel. Last year, we made improvements to the burner, spending \$100,000 to enhance efficiency. We continue to reduce the amount of wood waste at this plant.

Air Quality (both lumber and plywood)

		air permit	actual
Armstrong	– combined boiler stacks	230mg/m ³	9.3mg/m ³ *
Kelowna	– combined stack	120mg/m ³	8mg/m ³
	– veneer dryers	115mg/m ³	23.3mg/m ³
Lumby	– burner (mg/sq.decimeter/day)	2.90	2.13**
Williams Lake	– no smokestacks present	–	–
Soda Creek	– no smokestacks present	–	–

* Precipitator installed October 1999

** This figure is expected to drop substantially due to improvements to the burner.

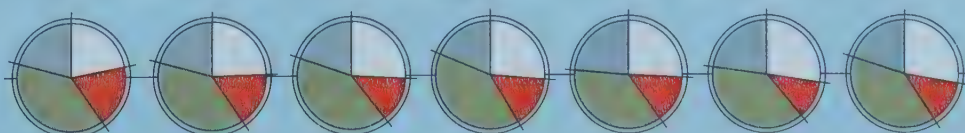
Efficiency Improvements

Efficiency is the ability to get more “outputs” from the “inputs” that go into the manufacturing process. At Riverside, we are steadily improving our efficiency by maximizing both the volume and the value of the finished products we generate from our resources.

- Conversion efficiency increased in 1999 as a result of better utilization of low-quality wood to produce pulp chips.
- Riverside significantly enhanced recovery levels at our Soda Creek operation by closing the old stud mill and shifting production to the facility's newer and more efficient small log line.

Log Conversion

	93	94	95	96	97	98	99
□ lumber	22%	25%	26%	27%	26%	28%	28%
■ veneer	18%	16%	14%	15%	14%	11%	13%
■ chips	39%	38%	40%	39%	37%	39%	39%
■ waste	21%	21%	20%	19%	23%	22%	20%



1. Waste percentages for 1997, 1998 and 1999 reflect increased production of lumber (which is less efficient to produce than plywood) and the addition of the Soda Creek operations.

Waste Reduction

Riverside continues to reduce the amount of waste going to landfills through a variety of efforts.

We are currently upgrading our cogeneration facility at the Kelowna mill to convert more of our wood waste into electricity. The facility will consume 100% of the hog fuel produced in Kelowna, as well as additional hogfuel we plan to procure from other operations in the area. The electricity produced will exceed the Kelowna operation's power needs, enabling excess power to be sold back to the grid. During 1999, Riverside's green team extended our recycling program. Employees can now use our collection systems to recycle materials brought from home.

Energy Usage [Gigajoules/mfbm]

	93/94	94/95	95/96	96/97	97/98	98/99
Armstrong	1.11	.81	.83	.80	.74	.73
Kelowna	.61	.64	.65	.44	.36	.36
Lumby	2.98	2.79	2.68	1.90	1.82	1.82
Williams Lake	1.11	1.65	1.75	1.32	1.24	1.72
Soda Creek	—	—	—	5.36	1.66	2.79

Hazardous Materials

Riverside has appropriate procedures in place for the collection, handling, recycling and disposal of hazardous materials. Lubricants, oils and greases are reused and recycled within the plant, or returned to the manufacturer to be cleaned and recycled.

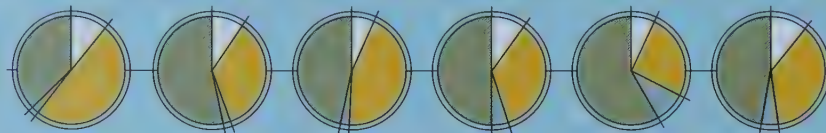
We also conduct spill training courses for employees on a company-wide basis, including woodlands. These courses teach employees how to minimize environmental damage in the event of an accidental hazardous material spill.

Community Involvement

Riverside participates in Pollution Prevention Committees in both the Okanagan and the Cariboo. These committees are made up of members of the community, environmental groups, Ministry of Environment and Riverside personnel who work together to identify pressing pollution concerns, and help us prioritize our environmental spending.

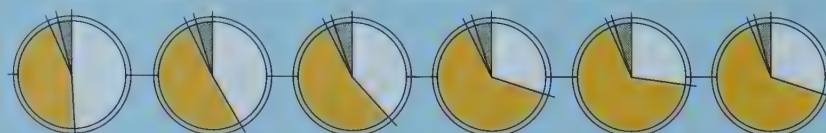
Waste Disposal – Lumber

	94	95	96	97	98	99
burned	11%	10%	7%	10%	7%	11%
burned for power	50%	35%	44%	35%	26%	37%
land fill	2%	2%	3%	5%	9%	5%
recycled/sold	37%	53%	46%	50%	58%	47%



Waste Disposal – Plywood

	94	95	96	97	98	99
burned	49%	42%	38%	30%	27%	30%
burned for power	44%	51%	55%	63%	66%	64%
land fill	3%	2%	2%	2%	2%	2%
recycled/sold	4%	5%	5%	5%	5%	4%

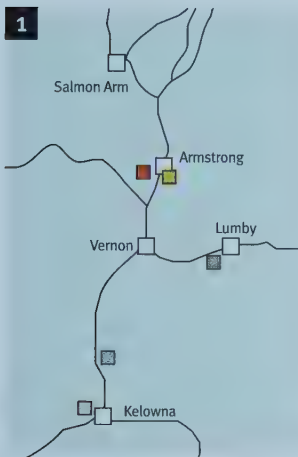


1. Larger than normal volumes of fire-damaged wood contributed to increased burning of wood waste in 1999.

Production Facilities

British Columbia

Riverside operates entirely within the province of British Columbia. Our Armstrong, Kelowna and Lumby operations are located in the Okanagan Valley, while the Williams Lake and Soda Creek Lumber Mills and the Ashcroft Treating Plant are located in the Cariboo Region.



- **Armstrong**
Plywood Plant
 Products: Select, sheathing, specialty Douglas fir and Canadian softwood plywood
 Annual Plywood Capacity: 250 mmsf
Lumber Mill
 Products: Precision trimmed stud lumber, J-Grade, CLS and metric, JAS certified
 Annual Lumber Capacity: 160 mmfbm

- **Armstrong**
Eagle Rock Seed Orchard and Nursery
 Species Grown: Spruce, pine, Douglas fir, cedar and larch
 Annual Capacity: 4.7 million seedlings

- **Lumby**
Veneer Plant
 Products: High-quality green veneer for Armstrong, Kelowna, USA and Canadian markets
 Annual Veneer Capacity: 175 mmsf
Lumber Mill
 Products: Precision trimmed stud lumber, J-Grade and CLS, JAS certified
 Annual Lumber Capacity: 90 mmfbm



- **Winfield**
Remanufacturing Facility
 Products: Plywood bins and shipping containers and custom cut plywood panels
 Annual Capacity: 80,000 plywood bins



- **Kelowna**
Plywood Plant
 Products: Select, sheathing, specialty Douglas fir and Canadian softwood plywood
 Annual Plywood Capacity: 150 mmsf
Lumber Mill
 Products: Precision trimmed stud lumber, J-Grade and CLS, JAS certified
 Annual Lumber Capacity: 160 mmfbm

- **Williams Lake**
Lumber Mill
 Products: Precision trimmed dimension lumber, J-Grade and CLS dimension lumber
 Annual Lumber Capacity: 225 mmfbm

- **Soda Creek**
Lumber Mill
 Products: Precision trimmed stud lumber, J-Grade and CLS, JAS certified
 Annual Lumber Capacity: 112 mmfbm
Finger-joint Plant
 Products: Finger-joint studs and finger-joint, tension tested stock
 Annual Capacity: 29 mmfbm

- **Ashcroft**
Treating Plant
 Products: Treated railroad ties, bridge timbers, switch ties, poles and pilings
 Annual Capacity: 600,000 ties and 1.4 mmfbm related products

CONSOLIDATED STATEMENT OF EARNINGS

(in thousands of dollars) unaudited

	Year ended September 30, 1999	Year ended September 30, 1998
Net sales	\$ 546,826	\$ 450,942
Cost of products sold	429,804	415,540
Selling and administration	17,481	12,735
Other income	(6,230)	(3,814)
Reduction in long-term reforestation obligation	—	(4,969)
Loss on shutdown Cantree Plywood	—	2,034
Earnings before interest, taxes, depreciation and amortization	105,771	29,416
Depreciation and amortization	24,726	23,811
Amortization of unrealized foreign exchange loss	(360)	2,995
Interest on long-term debt	14,781	11,625
Earnings (loss) before income taxes	66,624	(9,015)
Income taxes (recoverable)	28,066	(1,170)
Net earnings (loss)	\$ 38,558	\$ (7,845)
Weighted average number of common shares outstanding	9,199,493	9,199,493
Net earnings (loss) per common share	\$ 4.19	\$ (0.85)

CONSOLIDATED BALANCE SHEET

(in thousands of dollars) unaudited

	As at September 30, 1999	As at September 30, 1998
Assets		
Current assets	\$ 211,411	\$ 142,530
Long-term investments	2,078	1,136
Capital assets	197,524	212,100
Deferred unrealized foreign exchange loss	5,114	13,243
Deferred financing costs	2,561	2,263
	\$ 418,688	\$ 371,272
Liabilities and Shareholders' Equity		
Current liabilities	\$ 98,918	\$ 59,611
Reforestation obligation	10,839	10,839
Long-term debt	120,253	156,182
Other long-term liabilities	3,482	4,222
Deferred income taxes	16,336	9,564
Shareholders' equity	168,860	130,854
	\$ 418,688	\$ 371,272

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of dollars) unaudited

Year ended
September 30, 1999

Year ended
September 30, 1998

Cash provided by (used for)

Operations

Net earnings (loss)	\$	38,558	\$	(7,845)
Items not involving cash				
Depreciation and amortization		24,366		26,806
		62,924		18,961
Gain on disposal of capital assets		(18)		(190)
Deferred income taxes		6,772		385
Reforestation expenditures accrued		(64)		(4,373)
		69,614		14,783
Change in non-cash operating working capital		26,214		20,378
		95,828		35,161
Per common share (in dollars)	\$	10.42	\$	3.82

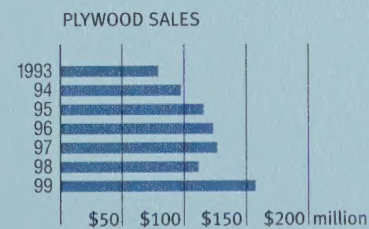
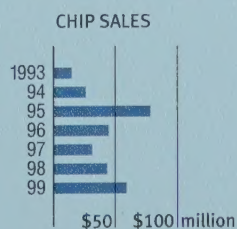
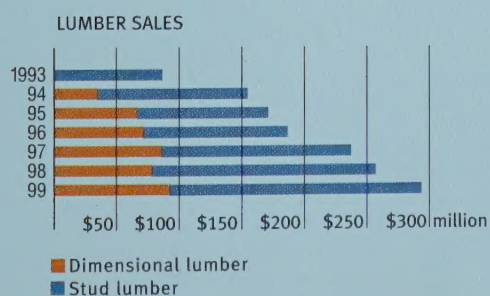
Financing

Repayment of long-term debt		(27,440)		—
Change in other long-term liabilities		(740)		622
Dividends		(552)		(368)
		(28,732)		254

Investment

Change in investments		(942)		1,140
Proceeds on disposal of capital assets		849		301
Purchase of capital assets		(10,248)		(13,144)
Increase in deferred financing costs		(1,030)		—
		(11,371)		(11,703)

Change in cash position		55,725		23,712
Cash position, beginning of period		43,332		19,620
Cash position, end of period	\$	99,057	\$	43,332



Corporate Directory

OFFICERS & SENIOR MANAGEMENT

Gordon W. Steele
Chairman, President and
Chief Executive Officer

Gerald E. Raboch
Chief Operating Officer

Morris J. Douglas
Vice-President, Sales and
Marketing

John S. Marritt
Vice-President, Woodlands

Michael E. Moore
Secretary Treasurer and
Chief Financial Officer

Alain R. Tremblay
Vice President,
Human Resources

BOARD OF DIRECTORS

Gordon W. Steele
Chairman, President and
Chief Executive Officer
Riverside Forest Products
Limited

Gerald E. Raboch
Chief Operating Officer,
Riverside Forest Products
Limited

John F. Ellett
Retired Businessman

William G. McIntosh
Retired Bank Executive

George L. Malpass
President and
Chief Executive Officer,
Primex Forest Products Ltd.



from left to right:
William G. McIntosh, John F. Ellett, Gerald E. Raboch,
Gordon W. Steele, and George L. Malpass

REGIONAL & DIVISIONAL MANAGERS

Darrell Embley
Regional Manager
Manufacturing,
Okanagan

Greg Maralia
Kelowna Division

Gary Zecchel
Armstrong Division

Bob Jones
Lumby Division

Spence Brigden
Regional Manager
Manufacturing, Cariboo

Richard Crowell
Williams Lake Division

Ian Fillinger
Soda Creek Division

Don Couch
Director of Woodlands
Operations, Okanagan

Bob Harrison
Kelowna Woodlands

Blair Barr
Armstrong Woodlands

Jim Lambert
Lumby Woodlands

Bob Flinton
Cariboo Region Woodlands

Mark Tamas
Williams Lake Woodlands

John Stace-Smith
Horsefly Woodlands

Dave Schwartz
Chilcotin Woodlands

Rick Kampf
Lumber Sales

John McComb
Plywood Sales

Don Adamski
Ashcroft

Mike Fulton
Winfield





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